

CITY OF SPIRIT LAKE

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

CITY OF SPIRIT LAKE

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CITY OF SPIRIT LAKE

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Blain Andera	Mayor	December 31, 2011
Jerry Harbst	Council Member	December 31, 2011
Jeff Thee	Council Member	December 31, 2011
Kevin Bice	Council Member	December 31, 2011
Clyde Ihrke	Council Member	December 31, 2013
Steve Balm	Council Member	December 31, 2013
Mark Stevens	Clerk/Administrator/Treasurer	December 31, 2011
Earl Maahs	Attorney	December 31, 2011

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake as of June 30, 2010 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2011 on our consideration of the City of Spirit Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information, included in Schedules 1, 2, and 3, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other information, included in Schedule 4, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Winther, Stave & Co., LLP

April 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Spirit Lake provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 Financial Highlights

- Receipts of the City's governmental funds increased by 5.36% or approximately \$298,500 from fiscal year 2009 to fiscal year 2010. Property taxes increased by approximately \$117,500.
- Disbursements of the City's governmental funds increased by 67.97% or approximately \$4,563,600 from fiscal year 2009 to fiscal year 2010. This increase was due primarily to increases in the debt service and capital project functions which increased by approximately \$1,752,300 and \$2,592,400, respectively.
- The City's total cash basis net assets decreased 4.47% or approximately \$214,900 from June 30, 2009 to June 30, 2010. Of this amount, the cash basis net assets of the governmental activities decreased by approximately \$438,300 and the cash basis net assets of the business type activities increased by approximately \$223,400.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and information on the City's debt.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting The City's Financial Activities

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and the solid waste department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Tax Increment Financing and Local Option Sales Tax, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City. The Internal Service Funds are used to account for the City's self-insurance and to account for reserves accumulated to fund future equipment purchases.

The required financial statements for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

Reconciliations between the government-wide statement and the fund statements follow the fund financial statements.

Government-Wide Financial Analysis

The City's cash basis net assets decreased by \$214,924 for the year ended June 30, 2010. The cash basis net assets of the governmental activities decreased by \$438,279 and the cash basis net assets of the business type activities increased by \$223,355. A summary of the changes is as follows:

Changes in Cash Basis Net Assets For the Year Ended June 30, 2010

	Governmental Activities	Business Type Activities	Total
Receipts:			
Program receipts:			
Charges for services	\$ 89,815	\$ 2,771,728	\$ 2,861,543
Operating grants, contributions, and restricted interest	514,097	11,805	525,902
Capital grants, contributions, and restricted interest ..	30,556	1,987	32,543
General receipts:			
Property and other city taxes	2,127,683		2,127,683
Tax increment financing	2,337,003		2,337,003
Local option sales tax	677,876		677,876
Unrestricted investment earnings	22,121	21,235	43,356
Unrestricted miscellaneous	65,764		65,764
Bond and note proceeds	4,688,770	960,322	5,649,092
Total receipts	<u>10,553,685</u>	<u>3,767,077</u>	<u>14,320,762</u>
Disbursements:			
Public safety	1,070,860		1,070,860
Public works	926,103		926,103
Culture and recreation	567,609		567,609
Community and economic development	43,381		43,381
General government	485,169		485,169
Debt service	4,438,312		4,438,312
Capital projects	3,742,597		3,742,597
Water		2,324,820	2,324,820
Sewer		289,323	289,323
Solid waste		647,512	647,512
Total disbursements	<u>11,274,031</u>	<u>3,261,655</u>	<u>14,535,686</u>
Change in cash basis net assets before transfers	(720,346)	505,422	(214,924)
Net transfers	<u>282,067</u>	<u>(282,067)</u>	<u>0</u>
Change in cash basis net assets	(438,279)	223,355	(214,924)
Cash basis net assets - beginning of year	<u>2,294,920</u>	<u>2,510,021</u>	<u>4,804,941</u>
Cash basis net assets - end of year	<u>\$ 1,856,641</u>	<u>\$ 2,733,376</u>	<u>\$ 4,590,017</u>

Individual Major Governmental Fund Analysis

Changes in Cash Balances - Governmental Funds For the Year Ended June 30,

	2010 <u>All Funds</u>	2009 <u>All Funds</u>
Receipts	\$ 5,863,734	\$ 5,565,287
Disbursements	<u>11,277,472</u>	<u>6,713,861</u>
Net	(5,413,738)	(1,148,574)
Other financing sources (uses)	<u>4,970,837</u>	<u>1,234,777</u>
Increase (decrease) in cash balances	(442,901)	86,203
Cash balances - beginning of year	<u>2,159,247</u>	<u>2,073,044</u>
Cash balances - end of year	<u>\$ 1,716,346</u>	<u>\$ 2,159,247</u>

The governmental funds reported a combined cash balance of \$1,716,346 which was \$442,901 less than the balance at June 30, 2009.

The general, local option sales tax, debt service, and nonmajor governmental funds showed modest increases in cash. The tax increment financing fund reported a decrease in cash of \$343,492, and the capital project fund reported a decrease in cash of \$186,034.

Individual Major Business Type Fund Analysis

Changes in Cash Balances - Proprietary Funds For the Year Ended June 30,

	2010 <u>Enterprise Funds</u>	2009	2010 <u>Internal Service Funds</u>	2009
Operating receipts	\$ 2,777,533	\$ 2,758,152	\$ 25,849	\$ 2,198
Operating disbursements	<u>1,869,295</u>	<u>1,789,510</u>	<u>23,133</u>	<u>26,689</u>
Excess (deficiency) of operating receipts over (under) disbursements	908,238	968,642	2,716	(24,491)
Non-operating receipts (disbursements)	(405,068)	38,991	4,158	7,271
Net transfers	<u>(407,374)</u>	<u>(770,517)</u>	<u>125,307</u>	<u>775</u>
Increase (decrease) in cash balances	95,796	237,116	132,181	(16,445)
Cash balances - beginning of year	<u>2,080,077</u>	<u>1,842,961</u>	<u>565,617</u>	<u>582,062</u>
Cash balances - end of year	<u>\$ 2,175,873</u>	<u>\$ 2,080,077</u>	<u>\$ 697,798</u>	<u>\$ 565,617</u>

The enterprise funds reported a combined cash balance of \$2,175,873 which was an increase of \$95,796 over the balance at June 30, 2009. The water and solid waste funds reported increases in cash of \$122,805 and \$56,772, respectively. The sewer fund reported a decrease in cash of \$83,781.

Budgetary Highlights

During the year, the City amended the budget twice. The final amendment was approved on May 25, 2010. These amendments were needed to budget additional expenditures, primarily to budget for a large payment to the Iowa Department of Transportation for Highway 9 & 71 and to budget for the prepayment of bonds which were called on December 1, 2010. Other financing sources were also amended to record bond issues primarily related to the DOT payment and the called bonds. Final actual disbursements did not exceed budgeted amounts.

Debt Administration

At June 30, 2010, the City had \$34,671,889 in bonds and other long-term debt, compared to \$32,301,567 last year as shown below.

Outstanding Debt at Year-End

	June 30,	
	<u>2010</u>	<u>2009</u>
General obligation bonds and notes	\$17,059,889	\$14,254,567
General obligation annual appropriation bonds	15,125,000	15,405,000
Water revenue capital loan notes	<u>2,487,000</u>	<u>2,642,000</u>
Total	<u>\$34,671,889</u>	<u>\$32,301,567</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$17,059,889 is within its constitutional debt limit of \$22,686,257. The water revenue capital loan notes used to finance the water plant improvement project do not count toward the City's legal 5% debt limitations. The annual appropriation bonds count toward the City's debt limitation only to the extent of principal and interest due within the next fiscal year.

The City issued \$4,720,000 in general obligation bonds and \$960,322 of general obligation water improvement bonds (reported in the water enterprise fund) during the year ended June 30, 2010. The proceeds of the \$4,720,000 bonds were used to repay the Iowa Department of Transportation (approximately \$3,135,000) and to refund three old bond issues (approximately \$1,585,000). The \$960,322 proceeds from the water improvement bonds were all spent on the water expansion project.

Economic Factors Bearing on the City's Future

The City of Spirit Lake has been resilient in getting through the past several years of economic hardship. While the community has endured a slowdown associated with the national economic recession, the effects have been relatively mild. The City took budget action early in the fiscal year in anticipation of revenue losses. This included a hiring freeze and other spending restrictions. These proved to be successful in limiting spending and maintaining financial stability.

The City operated under a restrictive budget in both fiscal year 2010 and fiscal year 2011. During this period, we refinanced debt to reduce costs, lowered certain personnel costs, deferred some operating and capital purchases, and avoided taking on new obligations. We did this without ignoring our responsibilities to properly care for facilities and to maintain public services.

In fiscal year 2010, the Water Plant Expansion Project was substantially completed, resulting in nearly doubling our treatment capacity. This allows us to remove our water use restrictions and is in conformance with the order from the Iowa Department of Natural Resources. We provided over \$40,000 as matching funds to the Airport Board for over \$200,000 in runway improvements to the Spirit Lake Airport. In fiscal year 2010, the City issued \$3,135,000 in general obligation bonds to finance its costs associated with work performed for the City by the Iowa Department of Transportation eight years ago.

The City increased its ending General Fund cash balances in fiscal year 2010. Most other major funds also had improvements or only slight reductions. We have achieved our goal, set in 2007, to get General Fund balances to at least 25% of expenditures. We believe that we will be able to maintain this minimum level of reserves for the foreseeable future. We will also continue to maintain adequate reserves in other funds, while using these to avoid debt financing whenever possible.

The City's debt level continues to be a problem. We have reduced capital projects, and related financing whenever possible and used internal financing tools when feasible. However, previous obligations such as the DOT project noted above, and other outstanding development agreements from pre-2006, continue to assert themselves. While these are gradually being disposed of through execution and financing, we still have two agreements yet to be fulfilled. These development agreements for future city infrastructure placement are estimated to be about \$4.5 million.

Financing these previous obligations, while addressing needed infrastructure repairs, has made it extremely difficult to reduce overall net debt. We expect to see a reduction in fiscal year 2011 of \$1.3 million in net outstanding debt. The current projection for net outstanding debt growth through fiscal year 2016 is about \$2 million (excluding the city hall/police station project).

In fiscal year 2011, the City Council resumed its consideration of replacing City Hall and improving the police station. This project remains under review but is anticipated to be taken to the voters in a November 2011 referendum. The cost of this project is approximately \$3 million. Other large projects are planned in fiscal year 2012 for storm water drainage improvements and road reconstruction. These will be financed through general obligation debt.

The City continues to experience annual increases in taxable valuation which correspondingly increases debt capacity and allows property tax receipts to increase with the levy rate held steady at \$10.54 per thousand valuation. This rate has been approved for fiscal year 2012 for the fourth straight year. City Administration believes that an increase in the levy rate will be necessary in fiscal year 2013 to maintain current services and financial condition.

Economic activity is showing signs of recovery, albeit slowly. The 2010 tourist season was improved and spending-sensitive revenues, such as sales tax and room tax, are returning close to pre-recession levels. There are other signs of developers, builders, and entrepreneurs preparing to invest in the local economy. It is still too early to make predictions about the strength of a recovery, however. Similar signals one year ago led to hopes that never materialized.

The City is fortunate that no major public controversies have arisen for the past four years. Relations among City Council members and between the Council and city staff are strong and positive. The public has generally been supportive of the City's plans and direction. The City's population grew by 14% during the 2000's. This makes Spirit Lake one of the few non-metro cities in the State to experience an increase.

In summary, the City of Spirit Lake is in good financial condition and the outlook is positive. Continued moderate growth in population and taxable valuation provide the resources to see improvement in services. The high debt level will limit the City's ability to undertake large projects. The effects of the national recession appear to be waning. The City is positioned to grow into even more of a leading center of commerce and development in Northwest Iowa.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Hall, 1803 Hill Avenue, Spirit Lake, Iowa 51360.

BASIC FINANCIAL STATEMENTS

CITY OF SPIRIT LAKE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
FUNCTIONS/PROGRAMS:			
Governmental activities:			
Public safety	\$ 1,070,860	\$ 81,571	\$ 59,214
Public works	926,103		377,830
Culture and recreation	567,609	4,367	58,828
Community and economic development	43,381		10,079
General government	485,169	3,877	
Debt service	4,438,312		8,146
Capital projects	<u>3,742,597</u>		
Total governmental activities	<u>11,274,031</u>	<u>89,815</u>	<u>514,097</u>
Business type activities:			
Water	2,324,820	1,687,182	8,799
Sewer	289,323	288,138	74
Solid waste	<u>647,512</u>	<u>796,408</u>	<u>2,932</u>
Total business type activities	<u>3,261,655</u>	<u>2,771,728</u>	<u>11,805</u>
 TOTAL	 <u>\$14,535,686</u>	 <u>\$2,861,543</u>	 <u>\$ 525,902</u>

General Receipts:

Property and other city taxes levied for:	
General purposes	
Debt service	
Tax increment financing	
Local option sales tax	
Unrestricted investment earnings	
Unrestricted miscellaneous	
Bond proceeds net of \$31,230 discount	
Operating transfers	
Total general receipts and transfers	

CHANGE IN CASH BASIS NET ASSETS

CASH BASIS NET ASSETS -
BEGINNING OF YEAR

CASH BASIS NET ASSETS - END OF YEAR

CASH BASIS NET ASSETS:

Restricted, expendable:	
Streets	
Urban renewal purposes	
Debt service	
Other purposes	
Unrestricted	

TOTAL CASH BASIS NET ASSETS

Exhibit A

<u>Capital Grants, Contributions, and Restricted Interest</u>	<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
	\$ (930,075)		\$ (930,075)
	(548,273)		(548,273)
	(504,414)		(504,414)
	(33,302)		(33,302)
	(481,292)		(481,292)
	(4,430,166)		(4,430,166)
\$ 30,556	(3,712,041)		(3,712,041)
<u>30,556</u>	<u>(10,639,563)</u>		<u>(10,639,563)</u>
		\$ (628,839)	(628,839)
		876	876
1,987		151,828	151,828
<u>1,987</u>		<u>(476,135)</u>	<u>(476,135)</u>
\$ 32,543	(10,639,563)	(476,135)	(11,115,698)
	2,061,690		2,061,690
	65,993		65,993
	2,337,003		2,337,003
	677,876		677,876
	22,121	21,235	43,356
	65,764		65,764
	4,688,770	960,322	5,649,092
	282,067	(282,067)	
	<u>10,201,284</u>	<u>699,490</u>	<u>10,900,774</u>
	(438,279)	223,355	(214,924)
	<u>2,294,920</u>	<u>2,510,021</u>	<u>4,804,941</u>
	<u>\$ 1,856,641</u>	<u>\$2,733,376</u>	<u>\$ 4,590,017</u>
	\$ 91,780		\$ 91,780
	500,972		500,972
	54,878	\$ 19,986	74,864
	86,043		86,043
	<u>1,122,968</u>	<u>2,713,390</u>	<u>3,836,358</u>
	<u>\$ 1,856,641</u>	<u>\$2,733,376</u>	<u>\$ 4,590,017</u>

See Notes to Financial Statements

CITY OF SPIRIT LAKE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Local Option Sales Tax</u>
RECEIPTS:			
Property tax	\$1,494,391		
Tax increment financing		\$2,337,003	
Other city taxes	181,510		\$677,876
Licenses and permits	27,208		
Use of money and property	8,130	9,155	1,036
Intergovernmental	87,885		
Charges for service	31,933		
Miscellaneous	112,172		
TOTAL RECEIPTS	<u>1,943,229</u>	<u>2,346,158</u>	<u>678,912</u>
DISBURSEMENTS:			
Public safety	899,745		
Public works	513,466		
Culture and recreation	343,353		120,000
Community and economic development	18,381	25,000	
General government	422,241		
Debt service			
Capital projects			
TOTAL DISBURSEMENTS	<u>2,197,186</u>	<u>25,000</u>	<u>120,000</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(253,957)</u>	<u>2,321,158</u>	<u>558,912</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	296,887		14,547
Operating transfers out	(14,547)	(2,664,650)	(572,422)
Bond proceeds net of \$31,230 discount			
TOTAL OTHER FINANCING SOURCES (USES)	<u>282,340</u>	<u>(2,664,650)</u>	<u>(557,875)</u>
NET CHANGE IN CASH BALANCES	28,383	(343,492)	1,037
CASH BALANCES - BEGINNING OF YEAR	<u>838,847</u>	<u>844,464</u>	<u>65</u>
CASH BALANCES - END OF YEAR	<u>\$ 867,230</u>	<u>\$ 500,972</u>	<u>\$ 1,102</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service			
Unreserved:			
Designated for economic development	\$ 316,826		
Designated for park development	4,300		
Undesignated:			
General fund	546,104		
Special revenue funds		\$ 500,972	\$ 1,102
Capital projects fund			
TOTAL CASH BASIS FUND BALANCES	<u>\$ 867,230</u>	<u>\$ 500,972</u>	<u>\$ 1,102</u>

Exhibit B

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 64,393		\$ 371,773	\$ 1,930,557
1,600		14,016	2,337,003
8,146	\$ 2,618	226	875,002
	30,556	383,295	27,208
		18,812	29,311
		788,122	501,736
<u>74,139</u>	<u>33,174</u>		31,933
			130,984
			<u>5,863,734</u>
		172,686	1,072,431
		413,251	926,717
		104,832	568,185
		63,608	43,381
4,438,312			485,849
	<u>3,742,597</u>		4,438,312
<u>4,438,312</u>	<u>3,742,597</u>	<u>754,377</u>	<u>3,742,597</u>
			<u>11,277,472</u>
<u>(4,364,173)</u>	<u>(3,709,423)</u>	<u>33,745</u>	<u>(5,413,738)</u>
2,809,938	513,343		3,634,715
	(99,984)	(1,045)	(3,352,648)
<u>1,578,740</u>	<u>3,110,030</u>		<u>4,688,770</u>
<u>4,388,678</u>	<u>3,523,389</u>	<u>(1,045)</u>	<u>4,970,837</u>
24,505	(186,034)	32,700	(442,901)
<u>30,373</u>	<u>301,477</u>	<u>144,021</u>	<u>2,159,247</u>
<u>\$ 54,878</u>	<u>\$ 115,443</u>	<u>\$ 176,721</u>	<u>\$ 1,716,346</u>
\$ 54,878			\$ 54,878
			316,826
			4,300
			546,104
	\$ 115,443	\$ 176,721	678,795
			<u>115,443</u>
<u>\$ 54,878</u>	<u>\$ 115,443</u>	<u>\$ 176,721</u>	<u>\$ 1,716,346</u>

CITY OF SPIRIT LAKE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND
 NET ASSETS - GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

TOTAL GOVERNMENTAL FUNDS CASH BALANCES PER EXHIBIT B \$1,716,346

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets. 140,295

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A \$1,856,641

NET CHANGE IN CASH BALANCES PER EXHIBIT B \$ (442,901)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal service funds are reported with governmental activities in the Statement of Activities and Net Assets. 4,622

CHANGE IN CASH BASIS NET ASSETS OF GOVERNMENTAL
 ACTIVITIES PER EXHIBIT A \$ (438,279)

CITY OF SPIRIT LAKE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
OPERATING RECEIPTS:				
Charges for services	\$1,687,182	\$288,138	\$796,408	\$2,771,728
Charges to operating funds				
Miscellaneous	<u>2,799</u>	<u>74</u>	<u>2,932</u>	<u>5,805</u>
TOTAL OPERATING RECEIPTS	<u>1,689,981</u>	<u>288,212</u>	<u>799,340</u>	<u>2,777,533</u>
OPERATING DISBURSEMENTS:				
Business type activities:				
Cost of sales and services	1,080,112	141,009	648,174	1,869,295
Claims and administrative charges	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>609,869</u>	<u>147,203</u>	<u>151,166</u>	<u>908,238</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):				
Interest on investments	11,102	2,399	4,757	18,258
Lease income	6,000			6,000
Special assessments		1,987		1,987
Purchase of capital assets	(1,002,147)	(148,623)		(1,150,770)
Bond proceeds	960,322			960,322
Debt service payments:				
Revenue note principal	(155,000)			(155,000)
Revenue note interest	<u>(85,865)</u>	<u> </u>	<u> </u>	<u>(85,865)</u>
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>(265,588)</u>	<u>(144,237)</u>	<u>4,757</u>	<u>(405,068)</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	344,281	2,966	155,923	503,170
OPERATING TRANSFERS IN	24,693		485,542	510,235
OPERATING TRANSFERS OUT	<u>(246,169)</u>	<u>(86,747)</u>	<u>(584,693)</u>	<u>(917,609)</u>
NET CHANGE IN CASH BALANCES	122,805	(83,781)	56,772	95,796
CASH BALANCES - BEGINNING OF YEAR	<u>956,273</u>	<u>514,964</u>	<u>608,840</u>	<u>2,080,077</u>
CASH BALANCES - END OF YEAR	<u>\$1,079,078</u>	<u>\$431,183</u>	<u>\$665,612</u>	<u>\$2,175,873</u>
CASH BASIS FUND BALANCES:				
Reserved for:				
Revenue note retirement	\$ 19,986			\$ 19,986
Unreserved	<u>1,059,092</u>	<u>\$431,183</u>	<u>\$665,612</u>	<u>2,155,887</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$1,079,078</u>	<u>\$431,183</u>	<u>\$665,612</u>	<u>\$2,175,873</u>

Exhibit D

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 25,200		\$ 25,200
<u>649</u>	<u> </u>	<u>649</u>
25,849		25,849
<u>23,133</u>	<u> </u>	<u>23,133</u>
<u>2,716</u>	<u> </u>	<u>2,716</u>
429	\$ 3,729	4,158
<u>429</u>	<u>3,729</u>	<u>4,158</u>
3,145	3,729	6,874
 	150,000	150,000
<u> </u>	<u>(24,693)</u>	<u>(24,693)</u>
3,145	129,036	132,181
<u>87,728</u>	<u>477,889</u>	<u>565,617</u>
<u>\$ 90,873</u>	<u>\$606,925</u>	<u>\$697,798</u>
<u>\$ 90,873</u>	<u>\$606,925</u>	<u>\$697,798</u>
<u>\$ 90,873</u>	<u>\$606,925</u>	<u>\$697,798</u>

CITY OF SPIRIT LAKE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND
 NET ASSETS - PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

TOTAL ENTERPRISE FUNDS CASH BALANCES PER EXHIBIT D \$2,175,873

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self
 funding the City's health insurance benefit plan to the individual funds and to
 fund future equipment purchases. A portion of the assets of the internal service
 funds are included in business type activities in the Statement of Activities
 and Net Assets. 557,503

CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$2,733,376

NET CHANGE IN CASH BALANCES - ENTERPRISE FUNDS PER EXHIBIT D . \$ 95,796

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self
 funding the City's health insurance benefit plan to the individual funds and to
 fund future equipment purchases. A portion of the change in net assets of the
 internal service funds are included in business type activities in the Statement
 of Activities and Net Assets. 127,559

CHANGE IN CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES
 PER EXHIBIT A \$ 223,355

CITY OF SPIRIT LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Spirit Lake, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1879 and operates under the Home Rule provisions of the constitution of Iowa. The City operates under the Mayor-Council-Clerk/Administrator form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spirit Lake provides numerous services to citizens, including general government, public safety, streets, sanitation and health, cultural and park facilities and social services. It also operates the water, sewer, and solid waste utilities.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. It was determined that the City has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Drainage District #22, Spirit Lake Community Fire Department, Dickinson County Airport Authority, Dickinson County Emergency Management Commission, Dickinson County E911 Service Board, Dickinson County Assessor's Conference Board, and various other organizations.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets - Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

Net assets are reported in two categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets - Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Fund is used to account for receipts from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for property tax relief and general government purposes.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for the operation and maintenance of the City's solid waste collection activities.

Additionally, the City reports the following funds:

Proprietary Funds - The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Spirit Lake maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Subsequent events were evaluated by management for disclosure up to the date of the auditors' report, which is the date the financial statements were available to be issued.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2010 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash and investments consisted of the following at June 30, 2010:

Cash on hand	\$ 840
Demand deposits	151,431
Certificates of deposit/savings accounts	<u>4,437,746</u>
	<u>\$4,590,017</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the City's long-term debt are as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>General Obligation Bonds/Notes</u>			<u>General Obligation Bonds/Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,475,000	\$1,008,334	\$ 2,483,334	\$ 340,000	\$ 226,606	\$ 566,606
2012	1,685,000	964,101	2,649,101	237,000	215,307	452,307
2013	1,225,000	911,511	2,136,511	394,000	207,354	601,354
2014	1,270,000	864,366	2,134,366	401,000	194,299	595,299
2015	1,625,000	815,234	2,440,234	376,000	181,016	557,016
2016	1,640,000	751,709	2,391,709	388,000	168,547	556,547
2017	1,810,000	687,111	2,497,111	395,000	155,636	550,636
2018	1,830,000	616,501	2,446,501	402,000	142,499	544,499
2019	1,740,000	543,749	2,283,749	415,000	129,134	544,134
2020	1,775,000	473,979	2,248,979	422,000	115,279	537,279
2021	1,815,000	401,684	2,216,684	431,000	101,179	532,179
2022	1,825,000	326,711	2,151,711	444,000	86,786	530,786
2023	1,860,000	250,356	2,110,356	452,000	71,897	523,897
2024	1,600,000	171,497	1,771,497	461,000	56,746	517,746
2025	1,090,000	102,218	1,192,218	470,000	41,264	511,264
2026	745,000	53,145	798,145	484,000	25,489	509,489
2027	400,000	19,000	419,000	262,889	9,151	272,040
Total	<u>\$25,410,000</u>	<u>\$8,961,206</u>	<u>\$34,371,206</u>	<u>\$6,774,889</u>	<u>\$2,128,189</u>	<u>\$ 8,903,078</u>

Year Ending June 30,	<u>Business-Type Activities</u>					
	<u>Water Revenue Capital Loan Notes</u>			<u>Total Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 159,000	\$ 80,828	\$ 239,828	\$ 499,000	\$ 307,434	\$ 806,434
2012	164,000	75,660	239,660	401,000	290,967	691,967
2013	169,000	70,330	239,330	563,000	277,684	840,684
2014	174,000	64,837	238,837	575,000	259,136	834,136
2015	179,000	59,183	238,183	555,000	240,199	795,199
2016	185,000	53,365	238,365	573,000	221,912	794,912
2017	190,000	47,352	237,352	585,000	202,988	787,988
2018	196,000	41,178	237,178	598,000	183,677	781,677
2019	202,000	34,807	236,807	617,000	163,941	780,941
2020	208,000	28,243	236,243	630,000	143,522	773,522
2021	214,000	21,482	235,482	645,000	122,661	767,661
2022	220,000	14,528	234,528	664,000	101,314	765,314
2023	227,000	7,377	234,377	679,000	79,274	758,274
2024				461,000	56,746	517,746
2025				470,000	41,264	511,264
2026				484,000	25,489	509,489
2027				262,889	9,151	272,040
Total	<u>\$ 2,487,000</u>	<u>\$ 599,170</u>	<u>\$ 3,086,170</u>	<u>\$9,261,889</u>	<u>\$2,727,359</u>	<u>\$11,989,248</u>

General Obligation Bonds/Notes

General obligation bonds/notes to be serviced by the Debt Service Fund totaled \$32,184,889 at June 30, 2010. The City issued \$4,800,000 of general obligation capital loan notes in September 2008. As of June 30, 2010, the City had received \$4,349,889 of advances on these notes.

The general obligation bonds reported under business-type activities were issued to pay for water and sewer projects. They are anticipated to be repaid by those enterprise funds. In addition, a majority of the other general obligation bonds are anticipated to be repaid from tax increment financing revenues and local option sales tax funds. In compliance with statutory requirements, any payments from other funds are recorded as reimbursements to the Debt Service Fund in the City's accounting records. General obligation bonds/notes bear interest with rates ranging from 1.15% to 7.50%.

Revenue Notes

The City has pledged future water customer revenues, net of specific operating expenses, to repay the \$3,501,000 water revenue capital loan notes issued in May 2003. Proceeds from the notes provided financing for a water plant addition. The notes are payable solely from water customer net revenues and are payable through 2023. Annual principal and interest payments are expected to require less than 50% of net revenues. Total principal and interest remaining to be paid on the notes are \$3,086,170. For the current year, principal and interest paid and total customer net revenues were \$240,865 and \$609,869, respectively. The notes bear interest at 3.25% including a .25% loan service fee.

The resolution providing for the issuance of the water revenue capital loan notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate water revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2010, the City is in compliance with the revenue note resolution.

4. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>	<u>Purpose</u>
General	Special Revenue:		
	Local option sales tax	\$ 232,200	60% general purposes
	Emergency	1,045	Budgeted transfer
	Capital Projects	59,142	Street repairs
	Proprietary:		
	Enterprise:		
	Water	2,600	Shield transfer
	Sewer	550	Shield transfer
	Solid Waste	1,350	Shield transfer
		<u>296,887</u>	
Special Revenue:			
Local Option	General	14,547	Adjust 60% general
Sales Tax			purposes
Debt Service	Special Revenue:		
	Local option sales tax	340,222	Debt payments
	Tax increment financing	2,179,108	Debt payments
	Capital Projects	40,842	Bond costs
	Proprietary:		
	Enterprise:		
	Water	203,569	Debt payments
	Sewer	46,197	Debt payments
		<u>2,809,938</u>	
Capital Projects	Proprietary:		
	Enterprise:		
	Solid Waste	513,343	Interfund loans
Proprietary:			
Enterprise:	Proprietary:		
Water	Internal service:		
	Equipment revolving	24,693	Truck purchase
Solid Waste	Special Revenue:		
	Tax increment financing	485,542	Repay interfund
			loan and interest
Internal service:			
Equipment	Proprietary:		
revolving	Enterprise:		
	Water	40,000	Budgeted transfer
	Sewer	40,000	Budgeted transfer
	Solid waste	70,000	Budgeted transfer
		<u>150,000</u>	
TOTAL OPERATING TRANSFERS		<u>\$4,294,950</u>	

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$142,832, \$127,258, and \$118,946, respectively, equal to the required contributions for each year.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The City operates a single-employer benefit plan which provides medical/ prescription drug benefits to active and retired employees and their eligible dependents. There are 39 active and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through an insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$349 for single coverage and \$802 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$235,194 and plan members eligible for benefits contributed \$49,688 to the plan.

7. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2010 is as follows:

Governmental activities:	
General fund	<u>\$ 66,859</u>
Business type activities:	
Proprietary:	
Enterprise:	
Water	29,320
Sewer	1,961
Solid waste	<u>7,575</u>
Total business type activities	<u>38,856</u>
TOTAL	<u>\$105,715</u>

8. INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$1,000,000 of industrial development revenue bonds, of which \$458,459 is outstanding at June 30, 2010. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

9. RELATED PARTY TRANSACTIONS

The City has business transactions between the City and City officials, totaling \$195 during the year ended June 30, 2010. See item II-D-10 in the Schedule of Findings.

10. COMMITMENTS

The City has entered into contracts for water plant expansion and sewer rehabilitation projects. A summary of the projects is as follows:

Contract total	\$3,900,609
Paid as of June 30, 2010	<u>3,705,573</u>
Balance to be paid	<u>\$ 195,036</u>

The City has also committed to share in the cost of a County project. The City's share is estimated to be \$258,000.

The City has committed funds to several nonprofit organizations, including \$100,000 per year for five more years for the construction of the YMCA. No contracts have been signed. The City will report the expenditures in the year payments are made.

11. SUBSEQUENT EVENTS

Subsequent to June 30, 2010, the City entered into contracts for three street projects and a sanitary sewer extension project totaling \$463,721. The City also issued \$6,660,000 of general obligation bonds which will be primarily used to retire several older bond issues.

12. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2010 were \$96,492.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a partial self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City has agreed to pay a portion of the employees' deductible.

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes	\$ 1,930,557		\$ 1,930,557
Other city taxes	875,002		875,002
Tax increment financing revenues	2,337,003		2,337,003
Licenses and permits	27,208		27,208
Use of money and property	29,311	\$ 28,416	57,727
Intergovernmental	501,736		501,736
Charges for services	31,933	2,796,928	2,828,861
Special assessments		1,987	1,987
Miscellaneous	<u>130,984</u>	<u>6,454</u>	<u>137,438</u>
TOTAL RECEIPTS	<u>5,863,734</u>	<u>2,833,785</u>	<u>8,697,519</u>
DISBURSEMENTS:			
Public safety	1,072,431		1,072,431
Public works	926,717		926,717
Culture and recreation	568,185		568,185
Community and economic development	43,381		43,381
General government	485,849		485,849
Debt service	4,438,312		4,438,312
Capital projects	3,742,597		3,742,597
Business type		<u>3,284,063</u>	<u>3,284,063</u>
TOTAL DISBURSEMENTS	<u>11,277,472</u>	<u>3,284,063</u>	<u>14,561,535</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(5,413,738)</u>	<u>(450,278)</u>	<u>(5,864,016)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in	3,634,715	660,235	4,294,950
Operating transfer out	(3,352,648)	(942,302)	(4,294,950)
Bond and note proceeds - net	<u>4,688,770</u>	<u>960,322</u>	<u>5,649,092</u>
TOTAL OTHER FINANCING SOURCES	<u>4,970,837</u>	<u>678,255</u>	<u>5,649,092</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	(442,901)	227,977	(214,924)
BALANCE - BEGINNING OF YEAR	<u>2,159,247</u>	<u>2,645,694</u>	<u>4,804,941</u>
BALANCE - END OF YEAR	<u>\$ 1,716,346</u>	<u>\$2,873,671</u>	<u>\$ 4,590,017</u>

Less Funds Not Required to be Budgeted	Net Actual	Original Budget	Final Budget	Final to Actual Variance
	\$ 1,930,557	\$ 1,914,975	\$ 1,914,975	\$ 15,582
	875,002	973,579	873,138	1,864
	2,337,003	2,300,000	2,300,000	37,003
	27,208	42,050	38,050	(10,842)
\$ 4,158	53,569	88,500	98,261	(44,692)
	501,736	419,150	443,018	58,718
25,200	2,803,661	3,345,431	3,280,431	(476,770)
	1,987	2,000	2,000	(13)
649	136,789	51,000	92,318	44,471
<u>30,007</u>	<u>8,667,512</u>	<u>9,136,685</u>	<u>9,042,191</u>	<u>(374,679)</u>
	1,072,431	1,049,953	1,129,107	56,676
	926,717	873,288	1,140,111	213,394
	568,185	623,024	631,855	63,670
	43,381	36,000	117,021	73,640
	485,849	575,483	568,753	82,904
	4,438,312	2,776,917	4,483,243	44,931
	3,742,597	775,000	4,019,869	277,272
23,133	3,260,930	4,203,441	3,927,342	666,412
<u>23,133</u>	<u>14,538,402</u>	<u>10,913,106</u>	<u>16,017,301</u>	<u>1,478,899</u>
<u>6,874</u>	<u>(5,870,890)</u>	<u>(1,776,421)</u>	<u>(6,975,110)</u>	<u>1,104,220</u>
150,000	4,144,950	4,765,850	5,158,354	(1,013,404)
(24,693)	(4,270,257)	(4,765,850)	(5,158,354)	888,097
	5,649,092	1,725,000	6,414,933	(765,841)
<u>125,307</u>	<u>5,523,785</u>	<u>1,725,000</u>	<u>6,414,933</u>	<u>(891,148)</u>
132,181	(347,105)	(51,421)	(560,177)	213,072
<u>565,617</u>	<u>4,239,324</u>	<u>4,553,576</u>	<u>4,809,215</u>	<u>(569,891)</u>
<u>\$697,798</u>	<u>\$ 3,892,219</u>	<u>\$ 4,502,155</u>	<u>\$ 4,249,038</u>	<u>\$ (356,819)</u>

CITY OF SPIRIT LAKE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon eight major classes of disbursements known as functions, not by fund or fund type. These eight functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$5,104,195. These budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 ALL NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Road Use Tax	Employee Benefits	Emergency	Friends of the Library	Total
RECEIPTS:					
Property tax		\$370,728	\$ 1,045		\$371,773
Other city taxes		14,016			14,016
Use of money and property				\$ 226	226
Intergovernmental	\$377,831			5,464	383,295
Miscellaneous		2,410		16,402	18,812
TOTAL RECEIPTS	<u>377,831</u>	<u>387,154</u>	<u>1,045</u>	<u>22,092</u>	<u>788,122</u>
DISBURSEMENTS:					
Public safety		172,686			172,686
Public works	333,749	79,502			413,251
Culture and recreation		65,816		39,016	104,832
General government		63,608			63,608
TOTAL DISBURSEMENTS	<u>333,749</u>	<u>381,612</u>	<u> </u>	<u>39,016</u>	<u>754,377</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	44,082	5,542	1,045	(16,924)	33,745
OTHER FINANCING USES:					
Operating transfers out	<u> </u>	<u> </u>	<u>(1,045)</u>	<u> </u>	<u>(1,045)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	44,082	5,542		(16,924)	32,700
CASH BALANCES - BEGINNING OF YEAR.....	<u>47,698</u>	<u>47,873</u>	<u> </u>	<u>48,450</u>	<u>144,021</u>
CASH BALANCES - END OF YEAR	<u>\$ 91,780</u>	<u>\$53,415</u>	<u>\$ </u>	<u>\$31,526</u>	<u>\$176,721</u>
CASH BASIS FUND BALANCES:					
Unreserved:					
Undesignated:					
Special revenue funds	<u>\$ 91,780</u>	<u>\$53,415</u>	<u>\$ </u>	<u>\$31,526</u>	<u>\$176,721</u>

CITY OF SPIRIT LAKE
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2010

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>
GENERAL OBLIGATION BONDS/NOTES TO BE PAID BY GOVERNMENTAL FUNDS:			
Taxable issue	9-1-1999	7.50%	\$ 400,000
General obligation urban renewal, Series 2001 A	10-01-2001		4,000,000
General obligation bonds, Series 2001B	10-01-2001		470,000
General obligation refunding bonds	6-01-2002		3,060,000
Essential corporate purpose	6-01-2003	3.55 - 4.00%	4,200,000
General obligation capital loan notes	10-01-2004	3.60 - 4.45%	2,280,000
General obligation refunding bonds	4-01-2005	3.20 - 3.35%	1,145,000
General obligation annual appropriation bonds	8-01-2005	3.50 - 4.35%	5,000,000
General obligation urban renewal annual appropriation bonds	7-01-2006	4.10 - 4.40%	4,300,000
General obligation annual appropriation capital loan notes	6-11-2007	4.40%	1,010,000
General obligation appropriation bonds	7-26-2007	4.75%	5,390,000
General obligation capital loan notes, Series 2008	10-07-2008	3.30 - 3.95%	325,000
General obligation bonds, Series 2009A	11-24-2009	3.00 - 3.80%	3,135,000
General obligation refunding bonds, Series 2009B	11-24-2009	1.15 - 1.55%	1,585,000
TOTAL GENERAL OBLIGATION BONDS/NOTES TO BE PAID BY GOVERNMENTAL FUNDS			
GENERAL OBLIGATION BONDS/NOTES INTENDED TO BE PAID BY ENTERPRISE FUNDS:			
General obligation bonds, Series 2007C (sewer)	6-01-2007	4.25 - 4.60%	610,000
General obligation capital loan note (water)	12-07-2006	3.25%	2,076,000
General obligation water improvement bonds (water)	9-17-2008	3.25%	4,349,889
TOTAL GENERAL OBLIGATION BONDS/NOTES INTENDED TO BE PAID BY ENTERPRISE FUNDS			
TOTAL GENERAL OBLIGATION BONDS/NOTES			
REVENUE NOTE:			
Water revenue capital loan notes, Series 2003	5-20-2003	3.25%	3,501,000

Schedule 2

<u>Final Due Date</u>	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
6-01-2011	\$ 95,000		\$ 45,000	\$ 50,000	\$ 7,080	
	750,000		750,000		14,792	
	120,000		120,000		2,566	
	665,000		665,000		13,936	
6-01-2023	3,920,000		280,000	3,640,000	143,920	
6-01-2024	1,955,000		100,000	1,855,000	77,867	
6-01-2012	480,000		160,000	320,000	15,280	
6-01-2025	5,000,000			5,000,000	199,303	
6-01-2026	4,300,000			4,300,000	183,261	
6-01-2018	925,000		85,000	840,000	40,700	
6-01-2027	5,180,000		195,000	4,985,000	246,050	
6-01-2014	325,000		60,000	265,000	11,455	
6-01-2024		\$3,135,000		3,135,000	61,734	
6-01-2012		<u>1,585,000</u>	<u>565,000</u>	<u>1,020,000</u>	<u>10,634</u>	
	<u>23,715,000</u>	<u>4,720,000</u>	<u>3,025,000</u>	<u>25,410,000</u>	<u>1,028,578</u>	
6-01-2027	590,000		20,000	570,000	25,797	
6-01-2026	1,965,000		110,000	1,855,000	63,863	
6-01-2028	<u>3,389,567</u>	<u>960,322</u>		<u>4,349,889</u>	<u>129,707</u>	
	<u>5,944,567</u>	<u>960,322</u>	<u>130,000</u>	<u>6,774,889</u>	<u>219,367</u>	
	<u>\$29,659,567</u>	<u>\$5,680,322</u>	<u>\$3,155,000</u>	<u>\$32,184,889</u>	<u>\$1,247,945</u>	
6-01-2023	<u>\$ 2,642,000</u>	<u>\$</u>	<u>\$ 155,000</u>	<u>\$ 2,487,000</u>	<u>\$ 85,865</u>	

CITY OF SPIRIT LAKE
BOND AND NOTE MATURITIES
JUNE 30, 2010

General Obligation Bonds/Notes

Year Ending June 30,	Issued 9-1-1999		Issued 6-1-2003		Issued 10-1-2004	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2011	7.50%	\$ 50,000	3.55%	\$ 280,000	3.60%	\$ 105,000
2012			3.55%	280,000	3.60%	105,000
2013			3.55%	280,000	3.60%	110,000
2014			3.55%	280,000	3.60%	115,000
2015			3.55%	280,000	3.65%	120,000
2016			3.55%	280,000	3.85%	125,000
2017			3.55%	280,000	3.95%	125,000
2018			3.65%	280,000	4.00%	130,000
2019			3.70%	280,000	4.10%	140,000
2020			3.80%	280,000	4.20%	145,000
2021			3.90%	280,000	4.30%	150,000
2022			3.95%	280,000	4.35%	155,000
2023			4.00%	280,000	4.40%	160,000
2024					4.45%	170,000
2025						
2026						
Total		<u>\$ 50,000</u>		<u>\$ 3,640,000</u>		<u>\$ 1,855,000</u>

General Obligation Bonds/Notes

Year Ending June 30,	Issued 6-11-2007		Issued 7-26-2007		Issued 10-7-2008	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2011	4.40%	\$ 90,000	4.75%	\$ 200,000	3.30%	\$ 65,000
2012	4.40%	95,000	4.75%	210,000	3.55%	65,000
2013	4.40%	100,000	4.75%	225,000	3.75%	65,000
2014	4.40%	105,000	4.75%	235,000	3.95%	70,000
2015	4.40%	105,000	4.75%	245,000		
2016	4.40%	110,000	4.75%	250,000		
2017	4.40%	115,000	4.75%	265,000		
2018	4.40%	120,000	4.75%	275,000		
2019			4.75%	285,000		
2020			4.75%	300,000		
2021			4.75%	310,000		
2022			4.75%	315,000		
2023			4.75%	350,000		
2024			4.75%	360,000		
2025			4.75%	370,000		
2026			4.75%	390,000		
2027			4.75%	400,000		
		<u>\$ 840,000</u>		<u>\$ 4,985,000</u>		<u>\$ 265,000</u>

See Accompanying Independent Auditors' Report

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CITY OF SPIRIT LAKE
BOND AND NOTE MATURITIES - cont.
JUNE 30, 2010

General Obligation Bonds/Notes

Year Ending <u>June 30,</u>	<u>Issued 12-7-2006</u>		<u>Issued 9-17-2008</u>		<u>Issued 6-1-2007</u>	
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>
2011	3.25%	\$ 110,000	3.25%	\$ 205,000	4.25%	\$ 25,000
2012	3.25%	1,000	3.25%	211,000	4.25%	25,000
2013	3.25%	152,000	3.25%	217,000	4.25%	25,000
2014	3.25%	152,000	3.25%	224,000	4.25%	25,000
2015	3.25%	120,000	3.25%	231,000	4.25%	25,000
2016	3.25%	120,000	3.25%	238,000	4.25%	30,000
2017	3.25%	120,000	3.25%	245,000	4.25%	30,000
2018	3.25%	120,000	3.25%	252,000	4.25%	30,000
2019	3.25%	120,000	3.25%	260,000	4.30%	35,000
2020	3.25%	120,000	3.25%	267,000	4.35%	35,000
2021	3.25%	120,000	3.25%	276,000	4.35%	35,000
2022	3.25%	120,000	3.25%	284,000	4.40%	40,000
2023	3.25%	120,000	3.25%	292,000	4.40%	40,000
2024	3.25%	120,000	3.25%	301,000	4.50%	40,000
2025	3.25%	120,000	3.25%	310,000	4.50%	40,000
2026	3.25%	120,000	3.25%	319,000	4.60%	45,000
2027			3.25%	217,889	4.60%	45,000
		<u>\$ 1,855,000</u>		<u>\$ 4,349,889</u>		<u>\$ 570,000</u>

CITY OF SPIRIT LAKE
BOND AND NOTE MATURITIES - cont.
JUNE 30, 2010

<u>General Obligation Bonds</u>		<u>Revenue Note</u>	
		<u>Issued 5-20-2003</u>	
<u>Subtotal (B)</u>	<u>General Obligation Total</u>	<u>Interest Rate</u>	<u>Amount</u>
\$ 340,000	\$ 1,815,000	3.25%	\$ 159,000
237,000	1,922,000	3.25%	164,000
394,000	1,619,000	3.25%	169,000
401,000	1,671,000	3.25%	174,000
376,000	2,001,000	3.25%	179,000
388,000	2,028,000	3.25%	185,000
395,000	2,205,000	3.25%	190,000
402,000	2,232,000	3.25%	196,000
415,000	2,155,000	3.25%	202,000
422,000	2,197,000	3.25%	208,000
431,000	2,246,000	3.25%	214,000
444,000	2,269,000	3.25%	220,000
452,000	2,312,000	3.25%	227,000
461,000	2,061,000		
470,000	1,560,000		
484,000	1,229,000		
262,889	662,889		
<u>\$ 6,774,889</u>	<u>\$ 32,184,889</u>		<u>\$ 2,487,000</u>

Notes to Schedule 3:

All general obligation bonds/notes will be paid from the debt service fund.
Any payments from other funds will be recorded as transfers to debt service.

(A) Total general obligation bond/notes to be paid by governmental funds.

(B) Total general obligation bond/notes intended to be paid by enterprise funds.

OTHER INFORMATION

CITY OF SPIRIT LAKE
SCHEDULE OF RECEIPTS BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST SEVEN YEARS

	Cash Basis			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
REVENUES:				
Property tax	\$ 1,930,557	\$ 1,813,026	\$ 1,284,869	\$ 1,463,280
Tax increment financing	2,337,003	2,030,722	2,839,656	1,878,437
Other city taxes	875,002	970,243	965,017	993,763
Licenses and permits	27,208	20,078	54,162	90,771
Use of money and property	29,311	36,480	122,085	146,201
Intergovernmental	501,736	444,811	732,578	739,507
Charges for services	31,933	27,477	13,448	88,022
Miscellaneous	<u>130,984</u>	<u>222,450</u>	<u>168,498</u>	<u>283,654</u>
 TOTAL REVENUES	 <u>\$ 5,863,734</u>	 <u>\$ 5,565,287</u>	 <u>\$ 6,180,313</u>	 <u>\$ 5,683,635</u>
 EXPENDITURES:				
Public safety	\$ 1,072,431	\$ 984,546	\$ 850,649	\$ 951,592
Public works	926,717	873,090	743,808	1,696,476
Culture and recreation	568,185	538,887	538,536	585,403
Community and economic development	43,381	5,870	51,115	225,124
General government	485,849	475,301	422,408	495,719
Debt service	4,438,312	2,685,985	2,248,864	3,116,251
Capital projects	<u>3,742,597</u>	<u>1,150,182</u>	<u>3,080,405</u>	<u>6,914,420</u>
 TOTAL EXPENDITURES	 <u>\$11,277,472</u>	 <u>\$ 6,713,861</u>	 <u>\$ 7,935,785</u>	 <u>\$13,984,985</u>

Schedule 4

Cash Basis		
<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 1,122,643	\$ 847,510	\$ 1,141,619
2,166,498	1,727,722	1,392,873
824,994	875,799	802,630
131,656	105,396	99,064
162,288	48,973	58,497
453,555	901,908	1,231,609
15,668	18,413	17,015
<u>206,945</u>	<u>473,719</u>	<u>240,584</u>
<u>\$ 5,084,247</u>	<u>\$ 4,999,440</u>	<u>\$ 4,983,891</u>

\$ 854,618	\$ 789,072	\$ 972,576
849,778	714,350	694,669
663,020	366,025	355,924
345,995	325,110	611,664
451,180	420,871	416,553
1,879,818	4,921,804	1,570,466
<u>2,995,488</u>	<u>3,436,656</u>	<u>4,156,452</u>
<u>\$ 8,039,897</u>	<u>\$10,973,888</u>	<u>\$ 8,778,304</u>

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake, Iowa as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 28, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Spirit Lake's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as describe in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as Item I-A-10 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Spirit Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Finding. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake, and other parties to whom the City of Spirit Lake may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Spirit Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winther, Stare & Co., LLP

April 28, 2011

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the General Purpose Financial Statements

Reportable Conditions:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted, because of the limited number of employees, there are times when employees are performing duties which are not compatible.

Recommendation - We realize that with a limited number of office employees segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review its control procedures.

Conclusion - Response accepted.

Instances of Non-Compliance:

No findings were noted.

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Required Statutory Reporting

II-A-10 Certified Budget - Disbursements for the year ended June 30, 2010 did not exceed budgeted amounts.

II-B-10 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-10 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

II-D-10 Business Transactions - The City paid Spirit Lake Mainsail (Mainsail) \$45,000 during the year ended June 30, 2010. Mayor Blain Andera is the executive director of Mainsail. This does not appear to represent a conflict of interest since the mayor is only an employee of Mainsail and does not have a vote on the Mainsail funding.

The only other related party transaction noted was a \$195 payment to Converged Technologies, LLC, a company owned by Jerry Harbst, Council Member. The transaction does not appear to represent a conflict of interest since the amount is less than \$1,500.

II-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-10 Revenue Bonds/Notes - No non-compliance with revenue note provisions were noted.

II-H-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.